



**GOVERNMENT OF THE VIRGIN ISLANDS
BUDGET ADDRESS 2012**



Sunrise over the Sir Francis Drake Channel.

Photo Courtesy: Dick Sullivan



MINISTRY OF FINANCE
Government of the Virgin Islands

**AUSTERITY TODAY SECURES
ECONOMIC RECOVERY TOMORROW**

Presented by
The Minister of Finance
Dr. the Honourable D. Orlando Smith
17 January 2012

2012 BUDGET ADDRESS

“AUSTERITY TODAY SECURES ECONOMIC RECOVERY TOMORROW”



Introduction

1. Madam Speaker, I move that the Bill entitled, Appropriation Act 2012, be read a second time and that in doing so this Honourable House extends its customary indulgence in permitting me to read the Budget Address.
2. Madam Speaker, I thank God and the people of the BVI for giving me the opportunity to deliver my Government's fifth Budget Address. This will undoubtedly be the most challenging of its kind and so I crave your indulgence as I begin with the global picture and how it has impacted the British Virgin Islands, before moving on to more specific issues.

Overview of the Economy

1. The global events of the last four years have had a marked impact on the economy of the Virgin Islands and have made us more aware of the fact that we are extremely vulnerable to changes in global commerce. Our two economic pillars: tourism and financial services took a direct hit and by extension the construction and real estate sectors have been negatively impacted. Rising unemployment levels and the absence or decline in job creation have also been by-products of reduced economic activity in the Territory.
2. More specifically, Madam Speaker, in the last four years economic uncertainty in North America and Europe has contributed to a decrease in the number of visitors from these markets to our shores. Turmoil in financial markets has affected investor confidence and in

turn the growth rate of our flagship business which is new incorporations of business companies.

3. This was helped on by aggressive EU and US initiatives to further regulate their citizens as they move in the corporate world. We have been affected by variations in the price of fuel brought on in part by political instability in oil-producing nations and varying demand levels in advanced economies. These have affected the overall cost of doing business in the BVI and the cost of living for the average resident.

4. Recognizing our vulnerabilities to global economic and financial factors, we must therefore equip ourselves as good stewards of our financial affairs, while also ensuring that we invest in our people and fully prepare ourselves to face the challenges of continued global uncertainty.

5. Madam Speaker, permit me now to provide this House with a more in depth review of the performance of the Territory's economy over the last two years.

6. The BVI's economy recovered slightly in 2010 and 2011 after experiencing negative growth in 2008 and 2009 as a result of the global economic and financial crisis. Unfortunately this growth did not manifest into a stronger financial position for the Government of the Virgin Islands, as increased fiscal pressures brought about by ballooning expenditures caused our cash balances to reach an all time low in the middle of the 2011 fiscal year.

7. Overall output in the Territory measured by the nominal Gross Domestic Product (GDP) fell for two consecutive years: by one point nine percent (1.9%) in 2008 and then by a further, drastic eleven point six percent (11.6%) in 2009. However, Madam Speaker, in 2010, the economy recovered slightly and exhibited positive growth of two percent (2%) and reached a nominal GDP level of eight hundred and ninety four point four million dollars (\$894.4 million).

8. This recovery was driven mainly by the slight rebound in overnight tourist arrivals which resulted in increased tourism expenditure and a rebound in the number of new incorporations and company renewals.

9. Madam Speaker, in 2011, the global economic recovery continued slowly. The BVI's nominal GDP was estimated at nine hundred and seven point one million dollars (\$907.1 m), a one point four one percent (1.41%) increase from 2010. This modest expansion was driven by further recovery in the Financial Services industry, specifically in increased company incorporations and consistent company renewal levels.

10. Over 64,000 new business companies were incorporated in 2011. This represented an eight point six percent (8.6%) increase in comparison to the same period in 2010 and a thirty six point three percent (36.3%) increase in comparison to 2009, the year which marked the low-point in company incorporations.

11. Unfortunately, Madam Speaker, our tourism industry has not recovered as robustly. In fact total tourist arrivals have decreased steadily since 2008. 2011 seems to have followed the same trend. Arrival figures for the first three quarters of 2011 are down by approximately two percent (2%) from the same period in 2010. Accounting for this drop was the reduction in cruise arrivals. Overnight tourist arrivals showed a marginal almost negligible increase of point five eight percent (0.58%). Projections for the end of 2011 indicate that tourist numbers will be down from 2010 arrivals.

12. The construction sector also continued to be sluggish, the climate for investors in the BVI was ambivalent and government spending on capital projects decreased by forty six percent (46%). Taken together, this produced a marked, negative impact on the economy. With all the many global challenges that impacted the BVI it is unfortunate that unlike other countries including many of our Caribbean neighbours, we failed to be sufficiently proactive

in both instituting measures to minimize the impact of the downturn and preparing ourselves for recovery.

13. Madam Speaker, permit me to now continue by focusing on how these global circumstances have impacted the cost of living in the BVI. Rising prices or inflation is one of the facets of any growing economy. To date inflation levels in the Territory have been manageable and comparable to other Overseas Territories (such as Bermuda and the Cayman Islands). Average prices for goods and services rose modestly in 2011 between two and three percent (2% and 3%) and this has been the trend for the last few years. Rising fuel costs and to a lesser extent housing associated costs and food prices contributed to average increases in 2011. As a non-industrialized country, BVI's inflation is directly related to its imports primarily from the United States and hence the rate of inflation here mirrors that of the US.

14. Madam Speaker, in recognizing the high cost of goods and services here in the Virgin Islands, I have already commissioned an analytical exercise in the Ministry of Finance to look at the issue of levying on businesses, duty only on the free on board prices on imported goods as opposed to the total of cost, insurance and freight, a measure which I expect to put in place very soon. The purpose of this Madam Speaker, is twofold:

- a) To provide local businesses with an opportunity to be more competitive with our external competitors.
- b) By passing the savings on to the customers permits the retention of a higher percentage of individual earnings in order that our people would have more disposable income to meet the needs of their families, and to have that money circulate many more times within the Territory before it takes flight.

15. Greater competition in business will result in a lower cost of living for the average BVI resident. We believe, like the late Chief Minister Hamilton Lavity Stoutt did, that with more discretionary dollars in the pocket of the ordinary man, he will build the BVI.

16. Madam Speaker, part of the grim reality of a sluggish economy is an increase in unemployment. In the past, we have boasted of full employment in the work force, however, economic hardships have reversed this trend. The 2010 employment figures, for example, reflect a decrease in employment numbers by 1.3%. In addition, persons have been laid off and are finding it challenging to regain employment. I am equally concerned that young persons leaving our education system and returning from studies abroad are finding it more difficult to enter the labor force.

17. Around the world, we have seen how stagnated and declining wages and benefits, and increasing levels of unemployment, especially among young people, have led to social, political and economic instability. Rest assured Madam Speaker, these events and their consequences have not been lost on us.

18. Going forward into 2012, we will need to do a better job of straddling the gap between economic growth and improvements in employment. We will have to utilize HLSCC in retraining to better equip our people to adapt to the needs and demands of a changing economy. At the same time we must ensure that we do not continue to import skills sets that are already available in the Territory while being careful not to stifle growth in the private sector.

Looking Ahead in the Economy

1. Globally, the year 2012 is projected to be one of slow growth with the US and Europe projected to grow at rates under two percent (2%) for the fifth consecutive year. Growth is also projected to slow in emerging economies from six point four percent (6.4%) to six (6%). The European debt crisis and the political stalemate in the US regarding its deficit have

already signaled continued challenges ahead for our Territory's economic recovery, given our reliance on those countries as export markets for tourism and financial services products.

2. A similar impact is expected from slowed growth in the Asian economies. Slower growth for our main trading partners translates to reduced demand for the services we provide. Without some wise and targeted interventions we may even expect that 2012 might be a year of retracted growth. My government will work hard to find workable and tangible solutions to keep the Territory buoyant in these difficult times.

3. Despite this economic backdrop that promises to pose tremendous challenges for us, we remain optimistic that our prudent management of the economy will yield positive results. It is critical that a coordinated, well researched economic recovery plan be implemented, as we seek to break free from the global and regional forecasts of economic contraction. Our manifesto articulates the basic aspirations and vision to achieve this goal, and with foresight, planning, implementation and diligence in monitoring of the use of our now scarce resources, we will succeed.

4. It is the business of my government to ensure that the "invisible hand" theory applies to our involvement in the economy. I believe that while it is the role of Government to manage the country by stimulating and fostering economic growth and development, it should do this through strategic policy actions and refrain as much as possible from being a competitor and participant in the economy. These policy actions should not merely engender economic growth, but also ensure that the benefits of economic success accrue to all of the people.

5. Madam Speaker, as I have said elsewhere, even in the short time that my Government has been at the helm, we have made significant inroads into correcting some of the deficiencies we met. I would reiterate that foremost amongst these have been the disturbing

state of our cash balances and the 15 million dollar unbudgeted contractual obligations created in the waning hours of the last administration.

6. Madam Speaker, though I will later speak specifically on the provisions included in the budget document before you that treats with the restoration of our cash balances to acceptable levels, we have had to address the very real problem of contractual obligations placed before us that are now currently contributing to our compromised fiscal position. Pursuant to these factors Madam Speaker, and as I alluded to in my address to the Territory in November of last year, we have already engaged Thompson Accounting, a UK based accounting firm to do a full investigative audit on the Finances of the Government of the Virgin Islands for the period spanning over the last four years. We expect to receive their report within six months.

7. Madam Speaker, we are very sympathetic to the legitimate expectations held by many of our citizens with respect to those contracts that were signed with the Government of the Virgin Islands in the waning hours of the last administration. These contracts were unbudgeted and you as well as Honourable Members would agree that in many instances, they were subjected to no due diligence regarding the recipients' ability to perform the required tasks. In addition, no provisions were made to ensure that the tax payers of this Territory were receiving value for the monies to be spent.

8. Although we in principle welcome our own citizens and residents providing services for a fee within the economy, we have to face certain harsh realities, some of which were already mentioned as well as consider what is in the best interest of the public on a whole. Before us then is the unpleasant task of determining the way forward in handling these obligations. Madam Speaker, the Cabinet is now actively looking at this problem, with a view to arriving at a solution within the coming weeks. On this issue, we will not be unsympathetic but we must be firm! Of one thing you can be assured Madam Speaker, we will make the decisions in the best interest of all of the people of these Virgin Islands.

9. Madam Speaker, this budget is our yearly contract with the people of the Virgin Islands and in order for it to be meaningful, one, it must be transparent and two, enforceable. Further, I would like to draw your attention once more to the platform on which my government came to office, “Putting our Country first”, and in so doing, I state with all the solemnity that can come to bear on that promise, that it is the terms of reference for every budget that will be presented in this House for the next four years.

10. Madam Speaker, in detailing the vision that we have for the Territory for the next four years we have but one goal; *“to improve the quality of life and the standard of living for the people of the Virgin Islands”*. The components of the plan to achieve this are centered on building a vibrant, growing and sustainable economy, developing our social services programme to meet the needs of our people, improving public safety and jurisprudence, and responsibly investing in the public sector.

Creating a Vibrant and Dynamic Economy

1. Madam Speaker, broad consultation is necessary to harness the best ideas for the benefit of our Territory, and to this end I have held forums in the Financial Services and Tourism sectors aimed at determining the needs of the private sector, and to develop a strategy to meet these needs. I intend to convene smaller and more focused meetings here and abroad in the near future. The Government of the Virgin Islands is a partner with all of the other stakeholders in this economy and as partners we must dialogue regularly and frankly, in order to assure ourselves that the economic environment here in the Virgin Islands is one that serve the needs and even expectations of all concerned.

2. By this and other means Madam Speaker, this Government is moving with all alacrity to restore investor confidence in the Territory. Pursuant to this in the spring of this year I will lead a delegation on a global road trip to speak to investors around the world in a focused effort to market the Virgin Islands.

3. Madam Speaker, the cornerstone of improving the quality of life and the standard of living of our people is a vibrant economy and we must ensure that our policies provide for economic growth and sustainability. On a national level we will rebrand the small business bureau as the National Business Bureau to develop national business enterprises, so that they can contribute more meaningfully to the economy in the long term, through the provision of products and services as well as through employment.

4. We will also use this Bureau to act as a channel for ideas from the public, and focus on creating a business friendly atmosphere where all businesses can thrive and be successful, while still being held to the highest service and product delivery standards. Our approach will be one of inclusion and partnership with the private sector, with no idea being too big or too small for consideration.

5. Madam Speaker, the draft national trade policy now under review illustrates that our commitment to the emergence of a new more diversified business sector and creating an enabling environment is of primary importance.

6. On the regional and global level based on practical considerations and our industry consultations, this government has decided to embark on a rebranding exercise as part of a new marketing strategy that links the Tourism, Financial Services and the Shipping Registry. Madam Speaker, we know that these three sectors are not only closely linked, but in many cases target the same clientele.

7. The BVI Tourist Board has been given a mandate to boost our tourist numbers and to enhance and diversify our product by developing new markets in regions such as Latin America and even within the Caribbean, which means in both cases that the nuances to our product must be tweaked to differentiate it from that of our competitors.

8. Concurrent with this and recognizing that there is 'no free lunch', the Board has already embarked on a process to reduce its subvention levels from the Government of the

Virgin Islands by recommending to Government a usage fee system that is commensurate with the use of facilities directly related to the industry. With its own independent revenue stream Madam Speaker, and its new business model, the Tourist Board will have a new independence that will engender innovation to renewed levels.

9. The Brandywine Bay Beach has been identified as an activity beach and The Tourist Board will control and manage concessions that will be placed. A reasonable fee will be charged for the privilege of operating. The Government, of course, will partner with the Tourist Board with the infrastructural development.

10. Our product as a cruise destination must be developed further by increasing land side activities in order to enhance this subsector of the industry and increase its contributions to our Gross Domestic Product.

11. We will develop Main Street and Wickham's Cay for visitors and citizens alike and build the QE2 Park, all as part of this product development strategy. Madam Speaker, we intend to focus our efforts in the tourism sector not only on the maintenance and improvement of current markets, but to forge new ground in the high end subsector, and the industries that support them, in a effort to maximize visitor spend and experience in the jurisdiction.

12. Finally, on the subject of diversifying our product is the need to pay more attention to Sports Tourism by building facilities for golfing and other sports, to boost overnight business and to increase the attractiveness of the destination.

13. Madam Speaker, air lift is a concern to us. Recognizing this we have already made a decision on the initial design of an extension to the Terrance B. Lettsome Airport, which will enable commercial jets to fly nonstop directly to and from the eastern seaboard of the United States, and for corporate class aircraft such as the Gulfstream V to fly directly to Western Europe.

14. I consider this initiative, because of the impact that it will have on our tourism product and the ease with which our citizens will be able to travel to and from other parts of the world, as the single most important infrastructural project being introduced in this budget.

15. Madam Speaker, you would also be interested to note that though debt will have to be incurred to complete this project, it will be repaid entirely from revenues generated from the airport itself, through an improved fee structure that depends on route - dependant levies and increased traffic.

16. Madam Speaker, the Government remains committed to strengthening the international competitiveness of the Financial Services sector and to its ongoing development and expansion. We are resolved to ensure that the BVI Financial Services industry is progressive, reputable and compliant and that we conduct our business to the satisfaction of the international financial standard setters. We are determined that the resources will be provided to our regulators and law enforcement agencies to enable them to effectively discharge their responsibilities and in so doing safeguard the reputation of the BVI as a top tier financial services centre.

17. Madam Speaker, I invited industry stakeholders to a meeting to enable me to hear directly from them of the challenges they now face and their views on how the BVI Financial Services Sector can be made more internationally competitive. I wish to publicly, on behalf of the government and people of these islands, express our appreciation for their continued contribution and to thank them for the candor of their comments. An action plan is currently being developed based on the recommendations made by sector stakeholders which will drive our efforts at further developing this sector.

18. Madam Speaker, notwithstanding the many challenges faced by offshore centers today revenues from the financial services sector have continued to be buoyant. Preliminary

figures from the FSC indicate there will be positive growth in revenues to Central Government from the sector. This demands special mention, given the prevailing economic downturn, so on behalf of a grateful community, I commend the industry and the FSC.

19. Madam Speaker, in the spirit of continuous improvement we will continue reviewing industry modalities to ensure that they remain pragmatic, fit for purpose and achieve the right balance between regulation on one hand and commerciality on the other. As a jurisdiction we must continue to provide differentiated risk based legitimate cross border solutions to the growing needs of the international business community. I also challenge the industry and the Commission to join us in renewing, refreshing and revitalizing the partnership for our collective good. I know that work is progressing to streamline certain procedures associated with the application of the Securities and Investment Business Act with a view to strengthening the appeal of this Territory as a domicile for Investment Business including Hedge Funds.

20. Madam Speaker, the Commission is currently reviewing the Territory's dated intellectual and industrial property legislation. We hope to enact a new Trade Marks Act and supporting Trade Marks Rules and Regulations along with related guidelines to be issued by the Commission and usher in a new and modernized trademarks regime that is comparable internationally. Work will also continue in reviewing other enactments relating to copyright and patents.

21. In addition the Commission has established a Focus Group with the mandate to review and revise the Arbitration Act (Cap. 6) and perhaps even look at the likelihood of establishing the BVI as an international arbitration centre. Further and though the Insurance Act was enacted recently, much has taken place within the Insurance Industry Sector since then. It is therefore necessary to review the Insurance Act, 2008.

22. Madam Speaker, the Virgin Islands is a service economy pure and simple, and we as a people must understand that because it is at the very core of our business, we must constantly strive to improve our attitude as well as our performance. It is not sufficient for us to have robust and modern legislation, we must also have service delivery standards that give us a competitive advantage.

Providing for the Health and Social Services

1. At the heart of our Health policy Madam Speaker, is an appreciation for the wider social determinants of health and the central roles of Health Promotion, Primary Health Care, and Universal Access as cost effective and appropriate approaches to resolving many of our health challenges.

2. Madam Speaker, we will focus on promoting healthy lifestyle habits that reduce the incidence of chronic diseases in the community. In this way Madam Speaker, we hope to elevate the basic health condition of our people which has a direct relationship to productivity and reducing the cost of health care to the Government of the Virgin Islands.

3. It is with this in mind, Madam Speaker, we have directed our attention to creating and enforcing policies and standards for regulating and improving the performance of the health system; in order to better protect the population's health, and respond to the community's legitimate expectations for quality health care.

4. In conjunction with these efforts, steps are also being taken to bring the performance of the Health Services Authority in line with international standards, through legislative and structural reforms, improved management and appropriate resource allocation.

5. Madam Speaker, I am deeply concerned about the manner in which the Hospital Project was handled in our absence. I am aware that in the waning hours of the former administration, a contract was signed for thirty million dollars (\$30 million) to complete

internal works. I have also been made aware of concerns with the previous contractor. Let me be clear Madam Speaker, completing the Hospital is a priority for my government and we will ensure that it is indeed completed. However, I intend to fully review the project and report back to the people of these Virgin Islands at a later date. For now, I am reliably informed that works on the interior of the Peebles Hospital will resume in the coming weeks with a schedule to commence the commissioning of that facility within the next eighteen months.

6. Madam Speaker, we also remain resolute in our commitment to respond to the growing health care needs of the residents of Virgin Gorda and surrounding communities by developing a modern and efficient medical facility with improved emergency services and observational beds. The people of Virgin Gorda need and expect it and my Government intends to provide it.

7. Madam Speaker, we are all aware of the high cost of health care globally but we are also aware of its necessity. Through the National Health Insurance Scheme which was started under my watch, we will seek to address the cost and provision of health care in the Territory and beyond. The Minister for Health and Social Development is already hard at work on these issues that are of the highest priority and urgency.

8. Madam Speaker, I now turn my attention to solid waste and cleanliness. Madam Speaker, it is plain for all to see, the BVI needs a face lift. The problems with litter, illegal dumping, transportation of waste and other materials in uncovered open tray trucks which result in untidy roads and the manner in which we dispose of waste oils, metals, white goods and spent batteries, all need urgent focus and attention. Especially for the businesses we are involved in, our natural environment must be kept clean and tidy at all times.

9. I am pleased to note that the one hundred (100) ton per day municipal solid waste incinerator which my government purchased before we left Office, finally came on line in

the closing days of the last Administration. We will have a ceremony to mark the opening of that plant and we will recognize those who have worked to make it a reality.

10. Madam Speaker, as our country continues to grow we find ourselves experiencing many of the social development issues that plague developed countries of our global community. You are aware Madam, of the increasing number of persons who are falling into the category of 'homeless.' It would certainly not have escaped your notice that mental health issues are on the rise and special needs children who are becoming special need adults have to be planned for. Our seniors must be provided for and in that regard we will continue the work on the seniors' home at Spooners.

11. Our vulnerable citizens and children as well must be protected from indiscriminate or violent acts at all cost, and the criminals who perpetrate these crimes brought to justice swiftly.

12. Madam Speaker, the time is ripe for a national debate, a consultation, on social development issues and we need to very seriously consider the implications and recommendations to arise from such a consultation.

Education to Enable Active and Meaningful Participation in the Global Village

1. Madam Speaker, a significant proportion of the financial resources has therefore been placed in Education. Going forward, we must ensure that our students can compete on an equal footing with the rest of the world. We have to address youth unemployment through training and education and then assisting in the job search.

2. Accreditation of our schools is a must. We have to embody the highest standards in our education if we are to remain competitive. You know, Madam Speaker, that not every child is academically inclined so concrete plans will be made this year for technical vocational education and training. Madam Speaker, it is time that a Technical Vocational

Education and Training policy be adopted to steer the way forward whether it be for moving on to tertiary education, for skills development or learning a trade.

3. It is important that Special Education receive focused attention. In my first speech on 9th November, 2011, I stated that this would be a priority of this Government. I intend to follow through on this promise. In the Budget, Madam Speaker, it is significant that a specific Subhead is allocated to the Student Services Unit to address initiatives such as early diagnosis/assessment and intervention as well as training for teachers in the field of Special Education among others.

Building a World Class Public Infrastructure System

1. Madam Speaker, my Government is committed to economic development through the modernization of the Territory's infrastructure including its electricity, water and sewerage, roads and traffic, fire and rescue services, seaports, harbours, and telecommunications.

2. The high cost of electricity bills as they relate to fluctuations in the cost of fossil fuels remains a great concern to all of us. During the height of the financial crisis the fuel surcharge fell as low as four point three (4.3) cents per unit. Now that the markets have regained much of their value and the price of oil has correspondingly climbed back to a level of about one hundred dollars (\$100) per barrel, we are once again experiencing high electricity bills as the fuel variation surcharge has escalated from four point three (4.3) cents per unit in March 2009, to a high of about nineteen (19) cents per unit in 2011.

3. Madam Speaker, the Ministry of Communications is working with the Electricity Corporation to introduce improvements that will lead to lower costs in the short and long term. At the forefront of our long term goal is fostering the development of alternative and renewable energy.

4. For far too long, Madam Speaker, our Territory has suffered the woes of inadequate water and sewerage systems that have not kept pace with our overall development. We will be reviewing and evaluating all water and sewerage contracts this year, in the best interest of

the Territory including the contract between Government and BiWater. Notwithstanding, there are some critical improvements to our water and sewerage system that are urgent including:

- a) A process to improve water supply systems through needed upgrades to our main water plant.
- b) Implementing a more efficient leak detection and billing system in order to reduce the unnecessary wastage and loss of revenue that has been taking place over the years.
- c) Continuing the work already undertaken in East End and extending it to Road Town to replace the existing pipe network in identified areas as well as upgrading the pumps which will provide much needed relief to all.

5. Madam Speaker, our road infrastructure is crumbling helped on by unusual storm activity in recent years. Such damages are particularly evident in certain areas of Tortola and Jost Van Dyke. In pursuing mitigation measures to prevent extensive erosion of our roadways, we are focusing on the development of proper drainage solutions and road engineering. This is also in keeping with our goal to improve major roads on all of our islands.

6. Madam Speaker, with respect to road safety the Ministry of Communications and Works is looking at improving traffic and road safety across our Virgin Islands as well as the implementation of medium to long term road traffic plans.

7. The improvement of our seaports and harbors, Madam Speaker, is a vital component of my government's plan for the Territory's economic development. To this end, Madam Speaker, priority is already being placed on the expansion of the Road Town cruise pier; the separation of passengers and cargo at the ferry dock on Virgin Gorda; as well as addressing harbour issues at Trellis Bay, Beef Island, on Anegada and Jost Van Dyke.

8. Madam Speaker, the telecommunications industry is a ‘cutting-edge’ industry with which we must keep pace. We will focus on developing and expanding telecommunications in a broader sense in tandem with our efforts to regulate this industry.

9. Madam Speaker, in keeping with my government’s mandate to improve the overall appearance and development of the City of Road Town, incremental capital improvement works have already commenced. To date, Madam Speaker, the Ministry of Communications and Works has engaged the Department of Public Works, and where necessary, private contractors to clean ghuts and drains and upgrade parking lots throughout Road Town. Further planning and development will take place during the year and public meetings will be held for consultations with residents as we go along.

Protecting and Managing our Human and Natural Resources

1. Madam Speaker, our land and other natural resources of sea, sand and sun are gifts given to us and for which we must be responsible custodians. But what we believe to be our most important resource is the people of these islands and to this effect, the 2010 Labour Code is being subjected to a continuing process of assessments, revisions and/or implementing new regulations as the need arises. This we view as an important process in order to improve the all encompassing subject of Labour relations in the Territory. As in other areas Madam Speaker, public consultations will be the bedrock on which our decisions in this vital area will be founded.

2. In addition Madam Speaker, we must recognize and deal with that other cog in our social safety net: food security. Long gone are the days when our available arable land was sufficient to provide for the subsistence needs of the people of this Territory using traditional farming methods. The greenhouse initiative started by the previous Government as a ground breaking and visionary initiative provided a sensible and practical way of at least beginning to address the topic of food security in the Virgin Islands. We intend to continue with this

initiative and expect to have at least one of these greenhouses operational by the end of this fiscal year.

3. Madam Speaker, in recognizing as well that the issue of land ownership is dear to the heart of the citizens of this Territory, we will vigorously pursue the computerization of the records of the Land Registry to provide for further security of these records as well as ease of access to records. The idea, Madam Speaker, is not new. It is necessary but still outstanding.

4. We will also reinstate the Housing Scheme initiative we initiated during our last tenure on this side of the House. Through that initiative, we helped many families and we intend to help many more during this term of office.

5. And this brings me to the environment, Madam Speaker. And even as we grow and build homes, and exploit more the sea around us, we will put greater emphasis on protecting that environment so that it can sustain us and future generations to come and that includes strengthening the management of our beaches, and preventing pollution and the depletion of the natural resources of our seas.

6. Madam Speaker, all the socioeconomic strategies we might put in place to develop the territory will amount to naught, if our citizens and visitors do not feel a sense of safety and the territory cannot be agree of the scourge of crime – whether petty or serious offences. The royal Virgin Islands Police Force will be therefore, given the resources to keep the territory safe.

Inside the Budget

1. Madam Speaker, currently the Government of the Virgin Islands is carrying a debt of one hundred and twelve million, three hundred and twenty nine thousand, two hundred and forty four dollars (\$112,329,244) with projections for the 2012 fiscal year to be in the region of one hundred million, six hundred and sixty three thousand and twenty three dollars

(\$100,663,023). Debt Service costs which include both interest and principal repayments are anticipated to be in the region of nineteen point four (19.4) million dollars. This figure Madam Speaker, represents (six point seven five) 6.75 percent of the projected revenue and seven point five one (7.51) percent of estimated recurrent expenditure for 2012. Contingent liabilities, that is liabilities guaranteed by the Government of the Virgin Islands, usually for its Statutory Boards, stand at twenty one million, three hundred and six thousand dollars (\$21,306,000) as of the end of 2011 and is expected to decrease further to eighteen million, eight hundred and fifty two thousand, five hundred dollars (\$18,852,500) by the end of 2012.

2. One of our goals in this fiscal year, Madam Speaker, is to consolidate this debt in order to reduce its financing costs and create more fiscal headroom. With this reduction in our financing costs Madam Speaker, our fiscal position will improve and when taken in conjunction with the other measures which I will report on shortly, we expect to be better positioned to provide for the needs of the people of this beautiful group of islands we call home.

3. In the last Budget Address my Administration made in 2006, we indicated dissatisfaction with the manner in which the budget and our financial statements were presented. In our view it allowed for several interpretations to be made of the same budget document and the programmes and policies that were contained therein. To address this issue we have decided that the initiative for reform of the financial management system that we began four years ago will be dusted off and implemented in the coming years. The schedule for this fiscal year involves the finalization of a new chart of accounts in preparation for a move to accrual accounting, further review and correction of deficiencies in our financial management software and significant changes to our budget process.

4. Madam Speaker, we see this as an extremely important initiative for this fiscal year, and the development of the budget process in particular will be one that improves the levels of transparency and accountability of the Government of the Virgin Islands to the people

whom we are elected to serve. The current Public Management Finance Act will be significantly amended, or perhaps even repealed and replaced with a more robust one, mandating among other things, the production and publishing of a Medium Term Fiscal Plan, having a Two Stage Budget process that involves the approval and presentation of a budget policy document well ahead of the presentation of a completely reformatted multi-year budget document, and stricter controls around project development and procurement of goods and services. To this end Madam Speaker, and despite the fact that it is not yet a legislative requirement, I intend to produce a Medium Term Fiscal Plan for consideration by this House by the middle of this fiscal year, a budget policy statement sometime after that, and a multi-year budget document in a output/programme format for consideration for, but before, the beginning of the 2013 fiscal year.

5. As the other party in the partnership with HMG, we share the view that the United Kingdom must be assured that the Virgin Islands will always be proactive and consistent in maintaining the highest levels of transparency, accountability and responsibility in managing its financial affairs. In my talks with Minister Henry Bellingham in November of 2011, I was left with the distinct impression that our positions on what should be acceptable as the financial management, transparency, accountability and risk practices of the Government of the Virgin Islands were very much aligned and that further discussions on this matter would be productive and expedient. In this regard, I am looking forward to the continuation of our discussions at the technical level in the coming weeks. I expect that any concerns that HMG might have had prior to these talks will be eradicated in short order.

6. Madam Speaker, the draft before us today scribes our initial suite of steps towards the correction of the current fiscal un-sustainability of the Government of the Virgin Islands. A number of measures have been made towards increasing our reserve levels and decreasing operational costs.

7. The first of these Madam Speaker, centres around the matter of Personal Emoluments. We have made a commitment to the Civil Service that we will not lay off any civil servant in order to decrease our operational costs and improve our fiscal position. This commitment Madam Speaker, unfortunately does not come without a financial cost and some personal sacrifices as well. The cost of this commitment is a reduction in operational costs, and the sacrifice that the individual civil servants must pay is increased effectiveness and efficiency.

8. We recognize Madam Speaker, that the Personnel Emoluments of civil servants are the single highest cost to the Government of the Virgin Islands accounting for some forty percent (40%) of total spend. As an intentional bi-product of this internal cost and personal sacrifice, we expect that the committed and hardworking public servants will produce a less costly, more efficient and effective institution in the short term.

9. Madam Speaker, in keeping this commitment we have not decreased the wage bill, but we have curtailed the rate at which we allowed it to grow. In the budget presented before you, we have decreased increments on salaries in this fiscal year to fifty percent (50%) of previous levels, accounting for a savings of close to one point five million dollars (\$1.5m). This means that each civil servant will receive an average annual increase in salary of five hundred dollars (\$500) instead of one thousand dollars (\$1,000).

10. I should add here Madam Speaker, that we took the view that elected legislators, despite not having had an increase in base salary in the last twelve years, should lead by example on cuts being made to emoluments. To this end we are each subject to a six thousand dollar (\$6,000) per annum reduction on our total remuneration package.

11. In addition Madam Speaker, a fifteen point eight percent (15.8%) cut was made on discretionary funds (referred to in the budget as Assistance Grants) resulting in a savings of

three hundred and twenty five thousand dollars (\$325,000) as a conscious effort to encourage the use of the systems already in place to assist the needy in the Territory.

12. Madam Speaker, even though we will always be firm in our commitment and actions to assist the less fortunate in our society, this ever growing dependency on these discretionary funds is undermining the pride, resilience, and independent spirit that was once the hallmark of the Virgin Islander. As a first step in reversing this Madam Speaker, we have channeled additional funds toward Health and Social Services so that the systems embedded therein can be utilized more fully to assist the individuals who need assistance. These systems and their due diligence mechanisms Madam Speaker, are being reviewed very closely by this administration in order to improve the efficiency and speed with which assistance can be given.

13. Madam Speaker, we have cut the funds available for operations by some seven percent (7%), resulting in savings of some eleven point eight million dollars (\$11.8m). In our brief value for money audits we have realized that there is much inefficiency in the operations of the Government of the Virgin Islands, and in this regard are charging ministries to adjust themselves to squeeze the maximum utility out of every dollar, with the mandate to effect the mantra of “doing more with less”.

14. You may note Madam Speaker, that we have also kept the contributions of parastatals with the exception of the Health Services Authority at previous levels. In this way, we have essentially made no nominal cuts to the majority of contributions given, but we have by holding these subventions to previous levels, made real cuts, to an amount equivalent to the rate of inflation which we currently estimate to be in the region of some two (2) to three percent (3%). We also will continue to expect that the previous administration’s three year timeline to have those that are able to wean themselves off of subventions from the Government of the Virgin Islands will bear fruit in the next two years. This will thus enable Central Government to retain funding that would have otherwise been transferred. I would

like to offer again my appreciation to the past administration for launching this initiative, and it is one which we will follow through to completion.

15. Another interesting feature of this budget is the elimination in all cases except for one, of balances that were being carried forward from year to year for un-implemented developmental projects. These are balances which we refer to as 'revotes'. Our philosophy Madam Speaker, is that developmental projects must be justified in each iteration of the budget, save for projects that are to span a multiyear cycle, and must be subjected to a yearly prioritization and justification process. In instances where projects span a multiyear cycle, they will be subjected to constant review so as to ensure that past and anticipated costs are accurately represented from year to year.

16. Critical to us being able to eliminate revotes Madam Speaker, in this year of nonexistent fiscal headroom, is another significant step taken in this budget in relation to the use of funds confiscated as a result of the IPOC case. These funds will be utilized fully in this financial year to finance specific initiatives identified in the budget document before you, including all important policing activities as mentioned previously. This move has allowed us to simultaneously eliminate the existence of carry forward balances for unexecuted developmental projects, while still being able to have a capital programme that though lean, in light of the circumstances, will still be able to responsibly treat with the tasks at hand.

17. Madam Speaker, in the specific instance in the Ministry of Communication and Works where we have not eliminated revotes we made a conscious decision to allow this exception based on two premises.

- a) First, is the recognition of the deplorable state of our public infrastructure, and the urgent need to repair it, and;

- b) Second, is the fact that no allocations were made for the use of IPOC funds for public infrastructural development in the pertinent resolution passed in this Honourable House.

18. Madam Speaker, as the initiatives identified illustrate, these confiscated funds are only being used in a manner that is consistent with international best practice, and in as transparent a manner as possible by identifying what they are being used for before the implementation of the projects via this budget. We see this as important in maintaining our stance of transparency and accountability to the people of this Territory.

19. Madam Speaker, the foregoing is but the beginning of our budget austerity programme. In the coming weeks and months the Ministry of Finance will be looking at further cost cutting measures by examining the Budget line by line, reviewing the structure of Government contracts and the like to determine what additional savings can be made as we are single minded in the quest to move this country back to the days of a healthy surplus. We are however conscious of not putting an undue burden on the citizenry.

20. Finally, on this particular matter Madam Speaker, my colleagues and I have set a target to building the Reserve Fund to one hundred million dollars (\$100m) by the year 2015. We have embarked on this journey, notwithstanding the fiscal constraints with which we are faced, by utilizing the cut in operations indicated, as well as proceeds from the IPOC fund to appropriate fifteen million dollars (\$15m) to the reserves in the 2012 financial year.

21. In terms of the provisions made within the Budget itself, Madam Speaker, our projected revenue for 2012 is two hundred and eighty seven million, four hundred and seventy two thousand dollars (\$287,472,000). This conservative estimate of a modest increase in revenue collection this year takes into account the slow pattern of growth projected in the US and Europe as well as slowing growth in the Asian economies this year. With this revenue projection and the cuts identified previously, we have estimated expenditure at two hundred and fifty eight million, four hundred and seventy two thousand dollars

(\$258,472,000) with an estimated surplus on operations of twenty nine million dollars (\$29,000,000). Of this figure Madam Speaker, we have allocated thirteen million dollars (\$13,000,000) to the Development Fund, one million dollars (\$1,000,000) to the Pension Fund and fifteen million dollars (\$15,000,000) to the Reserve Fund. Madam Speaker, we consider that based on the current circumstances that the Emergency Disaster Fund, Contingencies Fund and Repairs and Renewal Fund are adequately funded and any allocations that might have otherwise been made were channeled to the Reserve Fund. It is imperative that we build our recently depleted reserves as security for our future and those that follow us.

Closing Thoughts

1. Madam Speaker, I consider my colleagues and I to be extremely fortunate, in being supported by the group of dedicated and hard working public officers that make up the public sector, including Central Government and the statutory corporations and companies which are owned by it.
2. The Public Sector should be foremost in our efforts to engender national pride, and must be leaders in policy development, efficiency of operations and effectiveness. My colleagues and I will do our level best to ensure that in places where the public sector is not up to the required standard, that we will partner with them to improve it to the acceptable levels, and in places where there is excellence, seek to utilize the lessons learnt there to improve other areas.
3. Madam Speaker, their advice and insight is critical to our success and as such I wish to indicate that their input is both welcomed and encouraged at all times. This ethos of inclusion Madam Speaker, is not only our modus operandi, but is essential to achieving good governance and getting results in the Public Sector. As a consequence then, we are restoring all procedural and standard administrative practices inherent in an institution such as the

Public Sector, including expeditious communication of the decisions of Cabinet to the defacto head of the civil service, the Deputy Governor and the senior management group of the Civil Service which is comprised of the Permanent Secretaries and Financial Secretary to ensure the implementation of Cabinet decisions made, with the necessary assistance of the entire Service.

4. Madam Speaker, as I close, let me reiterate a promise made during the campaign: we will listen to and heed the views of the people of this Territory. This, we pledge, as your elected servants. Further, I have always welcomed constructive criticism and I repeat Madam Speaker, 'constructive criticism'. What is counterproductive and downright destructive is the often irresponsible statements made on various news sites by a few persons who hide behind the cover of the anonymity provided by these sites. I have said this before. It was important enough to repeat. I would encourage the people of this Territory to continue to engage with the Government constructively at this time as we seek to restore our beloved country to its glory days.

5. Finally, Madam Speaker, I close by expressing a heartfelt thank you to the various organizations and individuals, locally, regionally and internationally for the assistance that they have given to us over the past few months. In addition I would again like to extend a heartfelt thank you to the people of the Virgin Islands who have expressed their confidence in us on both sides of the house to place us as custodians of this Territory for the next four years. Most importantly I would like to give God thanks for the blessings he has bestowed on us as a Territory, and pray that his graciousness and mercies will continue to be with us in the future.

6. Thank you Madam Speaker.

Financial Secretary

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Deputy Financial Secretary

Wendell M. Gaskin

Budget Unit

Diane Parsons

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Trecia Thomas-Maduro

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MINISTRY OF FINANCE
Government of the Virgin Islands